HomeTrust Bancshares, Inc.

October 19, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Delivered via email: regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E Street, S.W.
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Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
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Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals[1] that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

HomeTrust Bank is a $1.6 billion federally chartered savings bank established in 1926 with headquarters in Asheville, NC. We serve our communities through twenty branch offices, helping North Carolina citizens to realize the American dream of home ownership through our mortgage loan originations and providing loans to small businesses as well. As of August 31, 2012, our Tier I leverage capital ratio was 14.28%, Tier I risk-based capital ratio was 20.93% and total risk-based capital ratio was 22.21%.

While the capital requirements of Basel III may be appropriate for very large domestic and internationally active banks that may pose a systemic risk to our economy, these regulations are not appropriate for community banks such as HomeTrust Bank. Community banks had little to

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

do with the recent economic debacle largely created by the poor underwriting and misuse of various residential loans made outside the primary banking system and securitized by large investment banks and mega lenders such as Countrywide. According to the American Bankers Association, approximately 94% of sub-prime and Alt-A loans were made outside the banking system. Community banks typically originate loans in their own local markets and are much more familiar with the risks associated with their hometown customers.

Your proposal will force community banks to hold resources internally instead of providing much-needed credit for small businesses and consumers in the local community. In addition, this regulatory burden will continue to cause consolidation among community banks, changing the current diverse mix of community, regional, and large banks into fewer, larger, and more systemically risky financial institutions.

Specifically, your proposal will make residential mortgages more difficult to obtain in many markets typically served by community banks such as ours. Residential mortgage loans kept in the bank's loan portfolio have shorter term fixed rates or are adjustable usually after 5 years. This is necessary to manage our interest rate risk which is exacerbated by the current low rate environment. Requiring more capital allocations on adjustable rate loans will increase the cost of credit and reduce the availability of credit in our communities. In addition, many community banks like ours originate and retain residential mortgage loans that do not quite fit the conforming loan standards due to larger lots and acreage, unpaved roads, etc. These loans are typical in more rural markets such as ours and do not represent greater risk to the bank than standard conforming loans. Your proposal will severely limit the credit options for these borrowers and increase the cost of credit. This will push many consumers out of the market and effectively increase the risk of these loans as less consumers will be able to obtain financing for these loans.

Second, community banks are typically very active in home equity lending. When properly underwritten, these loans provide consumers a reliable and cost effective line of credit to purchase consumer products and goods needed to stimulate the economy while providing a tax-deduction for the interest paid. Risk-weighting these loans at up to 200% will both increase the cost of credit and restrict the availability to the consumer.

Third, increasing the risk weighting on delinquent loans is redundant. Delinquent loans must be considering in calculation of the allowance for loan losses, which is already highly scrutinized and regulated to ensure that appropriated reserves are recognized for possible future losses. In order to protect their capital ratios, community banks may need to more quickly move to foreclosure to remove these loans from the books, reducing our willingness to work with a borrower to remediate the issues and potentially allow them to stay in their home. Bottom line, this requirement is redundant and unnecessary, undermining the mission of community-based lenders.

Fourth, your proposal's requirement of recognizing unrealized gains and losses on available for sale securities will have a substantial impact on the capital of many community banks. Market fluctuations will cause greater volatility in a bank's capital, particularly given the potential for increases in interest rates in the future. In order to reduce this volatility, banks will begin classifying investments as held to maturity which limits the bank's ability to manage the investment portfolio in a manner appropriate for liquidity, earnings, and interest rate risk.

Fifth, the scope and detail of the proposed rules will require the collection and reporting of new information to calculate the detailed risk weighting of assets of our bank. This will require new software and systems internally or outsourcing to a third party. Either way, the proposed rules will cause additional regulatory burdens and costs which are not necessary for community banks.

Finally, we believe the cumulative effect of each of these items will have a significant impact on all community banks in the country. The current banking regulatory environment continues to reduce revenue streams by removing traditional fee income opportunities while increasing the cost of doing business with additional regulatory and compliance requirements. The inability to generate appropriate returns on capital continues to inhibit investors from investing in community bank stocks which reduces a bank's abilities to expand its markets, products and services. Increasing capital requirements and regulatory burdens on community banks will only add to this problem.

In conclusion, we respectfully ask you reconsider your proposal, exempting community banks under $10 billion from the Basel III capital requirements. While the capital requirements of Basel III may be appropriate for very large domestic and international banks that pose a systemic risk to our economy, current regulatory capital guidance is adequate and more appropriate for community banks and should help them continue to serve the lending and banking needs of their local communities.

Sincerely,

F. Ed Broadwell
Chairman / CEO
HomeTrust Bank and
HomeTrust Bancshares, Inc.